



Phokwane Municipality
Annual Financial Statements
for the year ended 30 June 2017
The Auditor General of South Africa

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

General Information

Nature of business and principal activities	Phokwane Municipality is a local municipality performing functions asset out in the Constitution, Act 105 of 1996.
Legal form of entity	Municipality
Jurisdiction	The Phokwane Municipality includes the following areas: Hartswater, Jan Kempdorp, Pampierstad, Ganspan
Members of Council	
Mayor	ME KE Kalman
Speaker	Mr HM Modiakgotla
Councillors	ME MO Moremong Mr KS Mokale Mr CJ Adams ME S Lewis MR SJ Rudman MR RB Dikodu MR TM Kolwane MR SS Thube MR ML Magagane ME L Magerman ME KD Sedisho MR JS Musie Mr JP Chwarisang Mr D Sillands ME H Morometse MR GG Halter ME MK Tivane
Grading of local authority	Category B Municipality as defined by the Municipal Structures Act, Act no 117 of 1998
Accounting Officer	Adv. MC Mogale
Chief Finance Officer (CFO)	Mr MK Khoabane
Registered office	24 Hertzog Street Hartswater 8570
Postal address	Private Bag X3 Hartswater 8570
Bankers	Standard Bank of South Africa ABSA Bank Limited
Auditors	The Auditor General of South Africa
Attorneys	Towell & Groenewaldt
Members of the audit committee	Johan van Tonder (Chairperson) Sechaba Thole (Member) Abdul Bhyat (Member) Thatahalo Khumisi (Member)

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

General Information

Enabling legislation

Municipal Finance Management Act (Act no. 56 of 2003)
Division of Revenue Act
The Income Tax Act (Act no. 58 of 1962)
Value Added Tax Act (Act no 89 of 1991)
Municipal Structures Act (Act no. 117 of 1998)
Municipal Systems Act (Act no. 32 of 2000)
Municipal Planning and Performance Management Regulations
Housing Act (Act no. 107 of 1997)
Skills Development Levies Act (Act no. 9 of 1999)
Employment Equity Act (Act no. 30 of 1966)
Unemployment Insurance Act (Act no. 30 of 1966)
Basic Conditions of Employment Act (Act no. 75 of 1997)
Supply Chain Management Regulations, 2005
Disaster Management Act of 2016
Spatial Planning and Land Use Management Act (Act 16 of 2013)

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Index

Index	Page
Accounting Officer's Responsibilities and Approval	5
Accounting Officer's Report	6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Cash Flow Statement	10
Statement of Comparison of Budget and Actual Amounts	11 - 14
Accounting Policies	15 - 39
Notes to the Annual Financial Statements	40 - 93
Appendixes:	
Appendix B: Analysis of Property, Plant and Equipment	94
Appendix D: Segmental Statement of Financial Performance	96
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	97

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Index

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DoRA	Division of Revenue Act
DBSA	Development Bank of South Africa
EPWP	Expanded Public Workss Programme
GRAP	Generally Recognised Accounting Practice
FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IDP	Integrated Development Plan
IMFO	Institute of Municipal Finance Officers
INEP	Intergrated National Electrification Programme
MSA	Municipal Systems Act
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal System Improvement Grant
NERSA	National Energy Regulator of South Africa
PAYE	Pay As You Earn
SALGA	South African Local Government Associaton
SARS	South African Revenue Services

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers and the Minister of Corporative Governance determination in accordance with this Act.

The annual financial statements set out on pages 6 to 93, which have been prepared on the going concern basis, were approved by the accounting officer on 29 March 2018 and were signed on its behalf by:

Accounting Officer
Adv. MC Mogale

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2017.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interest of the local community within the Phokwane municipal area and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 71 632 207 (2016: deficit R 58 833 745).

2. Going concern

We draw attention to the fact that at 30 June 2017, the municipality has an accumulated surplus of R 1 311 020 283 and that the municipality's total assets exceed its total liabilities by R 1 311 020 283.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Furthermore management has reviewed the municipality's cash flow forecast for the year ended 30 June 2018 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue its operation existing for the foreseeable future.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocations as published in terms of the Division of Revenue Act (Act 1 of 2016).

For details of management's assumptions with respect to the applicability of the going concern assumption refer to note 44.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

No matters to report.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality	Changes
Adv. MC Mogale	South African	Appointed 01 February 2017

7. Auditors

The Auditor General of South Africa will continue in office for the next financial period.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	9	1 900 920	1 872 040
Other receivables from exchange transactions	10	135 739	104 820
Receivables from non-exchange transactions	11	6 248 182	4 785 382
VAT receivable	12	17 484 660	13 769 602
Receivables from exchange transactions	13	26 730 355	14 810 048
Cash and cash equivalents	14	21 514 044	3 362 638
		74 013 900	38 704 530
Non-Current Assets			
Investment property	3	20 716 563	19 996 682
Property, plant and equipment	4	1 375 331 369	1 422 406 996
Intangible assets	5	2 442 150	2 605 564
Heritage assets	6	7 635 063	7 635 063
Receivables from exchange transactions	8	1 949 203	3 149 485
		1 408 074 348	1 455 793 790
Total Assets		1 482 088 248	1 494 498 320
Liabilities			
Current Liabilities			
Payables from exchange transactions	17	113 366 093	67 816 159
Consumer deposits	18	2 858 117	2 709 122
Employee benefit obligation	7	1 558 000	371 964
Unspent conditional grants and receipts	15	22 428 181	3 720 446
Provisions	16	587 513	916 859
		140 797 904	75 534 550
Non-Current Liabilities			
Employee benefit obligation	7	12 208 000	18 561 894
Provisions	16	18 062 061	17 749 385
		30 270 061	36 311 279
Total Liabilities		171 067 965	111 845 829
Net Assets		1 311 020 283	1 382 652 491
Accumulated surplus		1 311 020 283	1 382 652 491

* See Note 41

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	125 422 915	110 305 855
Rental of facilities and equipment	21	597 608	427 373
Interest received (trading)		22 172 287	16 842 135
Other income		5 594 140	4 374 630
Interest received - investment	23	1 002 601	880 761
Total revenue from exchange transactions		154 789 551	132 830 754
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	21 946 673	17 309 071
Transfer revenue			
Government grants & subsidies	25	120 963 209	142 547 112
Fines, Penalties and Forfeits		37 790	221 050
Total revenue from non-exchange transactions		142 947 672	160 077 233
Total revenue	19	297 737 223	292 907 987
Expenditure			
Employee related costs	26	(75 391 906)	(67 057 419)
Remuneration of councillors	27	(5 322 524)	(4 744 167)
Depreciation and amortisation	28	(80 206 862)	(80 655 294)
Impairment loss/ Reversal of impairments		(429 008)	(219 087)
Finance costs	29	(6 529 913)	(1 088 440)
Debt Impairment	30	(60 878 734)	(47 389 875)
Repairs and maintenance	31	(11 541 304)	(13 202 205)
Bulk purchases	32	(107 102 952)	(102 992 996)
Contracted services	33	(8 051 658)	(9 859 941)
General Expenses	34	(20 109 898)	(22 373 688)
Total expenditure		(375 564 759)	(349 583 112)
Operating deficit		(77 827 536)	(56 675 125)
Loss on disposal of assets and liabilities		(460 632)	(1 259 107)
Fair value adjustments		719 881	1 078 345
Actuarial gains/losses	7	5 936 080	(1 977 858)
		6 195 329	(2 158 620)
Deficit for the year		(71 632 207)	(58 833 745)

* See Note 41

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	685 443 834	685 443 834
Adjustments		
Prior year adjustments	756 042 402	756 042 402
Balance at 01 July 2015 as restated*	1 441 486 236	1 441 486 236
Changes in net assets		
Deficit for the year	(58 833 745)	(58 833 745)
Total changes	(58 833 745)	(58 833 745)
Restated* Balance at 01 July 2016	1 382 652 490	1 382 652 490
Changes in net assets		
Deficit for the year	(71 632 207)	(71 632 207)
Total changes	(71 632 207)	(71 632 207)
Balance at 30 June 2017	1 311 020 283	1 311 020 283

* See Note 41

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		81 931 658	81 864 529
Grants		138 245 934	143 760 439
Interest income		23 174 888	17 722 896
		<u>243 352 480</u>	<u>243 347 864</u>
Payments			
Employee costs		(79 946 208)	(66 945 586)
Suppliers		(104 867 493)	(59 170 112)
Finance costs		(6 529 913)	(1 088 440)
		<u>(191 343 614)</u>	<u>(127 204 138)</u>
Net cash flows from operating activities	36	<u>52 008 866</u>	<u>116 143 726</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(34 176 279)	(113 210 531)
Proceeds from sale of property, plant and equipment	4	434 774	-
Other movements	4	(114 612)	-
Purchase of other intangible assets	5	(27 200)	(556 734)
Proceeds from sale of other intangible assets	5	25 857	-
Net cash flows from investing activities		<u>(33 857 460)</u>	<u>(113 767 265)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		-	(3 025 000)
Finance lease payments		-	(52 221)
Net cash flows from financing activities		<u>-</u>	<u>(3 077 221)</u>
Net increase/(decrease) in cash and cash equivalents		18 151 406	(700 760)
Cash and cash equivalents at the beginning of the year		3 362 638	4 063 398
Cash and cash equivalents at the end of the year	14	<u>21 514 044</u>	<u>3 362 638</u>

* See Note 41

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
--	-----------------	-------------	--------------	------------------------------------	--	-----------

Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	132 078 408	-	132 078 408	125 422 915	(6 655 493)	51, X1
Rental of facilities and equipment	570 228	(7 129)	563 099	597 608	34 509	51, X2
Interest received (trading)	15 710 215	2 100 000	17 810 215	22 172 287	4 362 072	51, X3
Agency services	1 830 337	-	1 830 337	-	(1 830 337)	51, X4
Licences and permits	2 042 881	45 822	2 088 703	-	(2 088 703)	51, X5
Other income	866 911	57 939	924 850	5 594 140	4 669 290	51, X6
Interest received - investment	800 000	2 500 000	3 300 000	1 002 601	(2 297 399)	51, X7
Total revenue from exchange transactions	153 898 980	4 696 632	158 595 612	154 789 551	(3 806 061)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	22 118 105	-	22 118 105	21 946 673	(171 432)	51, X8
----------------	------------	---	------------	------------	-----------	--------

Transfer revenue

Government grants & subsidies	112 152 550	(30 098 550)	82 054 000	120 963 209	38 909 209	51, X9
Fines, Penalties and Forfeits	178 900	-	178 900	37 790	(141 110)	51, X10

Total revenue from non-exchange transactions

Total revenue from non-exchange transactions	134 449 555	(30 098 550)	104 351 005	142 947 672	38 596 667	
---	--------------------	---------------------	--------------------	--------------------	-------------------	--

Total revenue

Total revenue	288 348 535	(25 401 918)	262 946 617	297 737 223	34 790 606	
----------------------	--------------------	---------------------	--------------------	--------------------	-------------------	--

Expenditure

Personnel	(68 828 557)	(3 568 277)	(72 396 834)	(75 391 906)	(2 995 072)	51, X11
Remuneration of councillors	(5 874 726)	(264 514)	(6 139 240)	(5 322 524)	816 716	51, X12
Depreciation and amortisation	(13 104 451)	-	(13 104 451)	(80 206 862)	(67 102 411)	51, X13
Impairment loss/ Reversal of impairments	(11 177 966)	-	(11 177 966)	(429 008)	10 748 958	51, X14
Finance costs	-	-	-	(6 529 913)	(6 529 913)	51, X15
Debt Impairment	-	-	-	(60 878 734)	(60 878 734)	51, X16
Repairs and maintenance	(11 010 049)	399 621	(10 610 428)	(11 541 304)	(930 876)	51, X17
Bulk purchases	(81 270 196)	-	(81 270 196)	(107 102 952)	(25 832 756)	51, X18
Contracted Services	(27 767 116)	7 137 969	(20 629 147)	(8 051 658)	12 577 489	51, X19
General Expenses	(66 299 029)	(1 220 611)	(67 519 640)	(20 109 898)	47 409 742	51, X20
Total expenditure	(285 332 090)	2 484 188	(282 847 902)	(375 564 759)	(92 716 857)	
Operating deficit	3 016 445	(22 917 730)	(19 901 285)	(77 827 536)	(57 926 251)	
Loss on disposal of assets and liabilities	-	-	-	(460 632)	(460 632)	51, X21
Fair value adjustments	-	-	-	719 881	719 881	51, X22
Actuarial gains/losses	-	-	-	5 936 080	5 936 080	51, X23
	-	-	-	6 195 329	6 195 329	
Deficit before taxation	3 016 445	(22 917 730)	(19 901 285)	(71 632 207)	(51 730 922)	

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	3 016 445	(22 917 730)	(19 901 285)	(71 632 207)	(51 730 922)	
Reconciliation						

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	-	1 900 920	1 900 920	
Other receivables from exchange transactions	-	-	-	135 739	135 739	
Receivables from non-exchange transactions	10 855 510	-	10 855 510	6 248 182	(4 607 328)	
VAT receivable	-	-	-	17 484 660	17 484 660	
Consumer debtors	42 094 299	-	42 094 299	26 730 355	(15 363 944)	
Cash and cash equivalents	4 385 160	-	4 385 160	21 514 044	17 128 884	
	57 334 969	-	57 334 969	74 013 900	16 678 931	
Non-Current Assets						
Investment property	-	-	-	20 716 563	20 716 563	
Property, plant and equipment	192 930 626	-	192 930 626	1 375 331 369	1 182 400 743	
Intangible assets	470 000	(320 000)	150 000	2 442 150	2 292 150	
Heritage assets	-	-	-	7 635 063	7 635 063	
Receivables from exchange transactions	-	-	-	1 949 203	1 949 203	
	193 400 626	(320 000)	193 080 626	1 408 074 348	1 214 993 722	
Total Assets	250 735 595	(320 000)	250 415 595	1 482 088 248	1 231 672 653	
Liabilities						
Current Liabilities						
Other financial liabilities	75 183	-	75 183	-	(75 183)	
Payables from exchange transactions	20 791 404	-	20 791 404	113 366 096	92 574 692	
Consumer deposits	-	-	-	2 858 117	2 858 117	
Employee benefit obligation	-	-	-	1 558 000	1 558 000	
Unspent conditional grants and receipts	-	-	-	22 428 181	22 428 181	
Provisions	-	-	-	587 513	587 513	
	20 866 587	-	20 866 587	140 797 907	119 931 320	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	12 208 000	12 208 000	
Provisions	14 642 259	-	14 642 259	18 062 061	3 419 802	
	14 642 259	-	14 642 259	30 270 061	15 627 802	
Total Liabilities	35 508 846	-	35 508 846	171 067 968	135 559 122	
Net Assets	215 226 749	(320 000)	214 906 749	1 311 020 280	1 096 113 531	

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	215 226 749	(320 000)	214 906 749	1 311 020 280	1 096 113 531	

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.5 Property Plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.4 Investment property (continued)

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs is the amount of cash or cash equivalent or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of asset.

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent measurement:

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings and community assets which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.5 Property, plant and equipment (continued)

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Depreciation and impairment:

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Land, except for landfill and quarry sites, is not depreciated as it has an indefinite useful life.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Subsequent to initial recognition, property plant and equipment on the cost model, is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Community facilities	Straight line	5 - 80 years
Sport and recreation facilities	Straight line	5 - 80 years
Electrical Infrastructure	Straight line	5 - 60 years
Water supply Infrastructure	Straight line	5 - 80 years
Roads Infrastructure	Straight line	7 - 100 years
Sanitation Infrastructure	Straight line	5 - 80 years
Stomwater Infrastructure	Straight line	20 - 60 years
Solid Waste Infrastructure	Straight line	9 - 80 years
Community facilities	Straight line	5 - 80 years
Housing	Straight line	5 - 60 years
Operational buildings	Straight line	5 - 80 years
Copmuter equipment	Straight line	4 - 7 years
Furniture and Fittings	Straight line	4 - 7 years
Lease assets - Office equipment	Straight line	5 years
Machinery and equipment	Straight line	4 - 5 years
Office equipment	Straight line	3 - 7 years
Vehicles	Straight line	4 - 15 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.5 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Derecognition:

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Commitments:

Where the municipality has a contractual commitment in respect of the acquisition of property, plant and equipment, these are disclosed in note 39. The commitments as disclosed are the contractual amount less any payment made in respect of the contract.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.7 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent measurement:

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the earlier of the date that asset is classified as held for sale (or included a disposal group that is classified as held for sale) in accordance with the standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is derecognised.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	3 - 5 years
Servitudes	Straight line	Infinite

Derecognition:

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.8 Heritage assets

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The heritage assets of the municipality shall not be depreciated but, the municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

For a transfer from investment property carried at fair value, on inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount shall be recognised in surplus or deficit.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.8 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

Transitional provision

The Municipality opted to take advantage of the transitional provision as contained in the Directive 7 of the Accounting Standards Board, issued in December 2009. The municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.9 Financial instruments (continued)

- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.9 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

Class	Category
-------	----------

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.9 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.10 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.11 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.13 Employee benefits

Provision for staff leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end, capped at a maximum of 48 days, and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods, if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff bonuses accrued

Liabilities for staff bonuses are recognised as they are accrued to employees. The liability at year-end is based on bonus accrued at year-end for each employee.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.14 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.14 Provisions and contingencies (continued)

Management judgement is required when recognising and measuring contingent liabilities.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Pre-paid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.23 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.25 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statement. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2010/04/01 to 2011/03/31.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts .

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements . Refer to note .

1.27 Related parties

The municipality resolved to adopt the disclosure requirements as per GRAP 20 – "Related Party Disclosures".

A related party is a person or an entity:

- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party, or vice versa,
- or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the municipality

- (a) A person or a close member of that person's family is related to the municipality if that person
 - has control or joint control over the municipality.
 - has significant influence over the municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the municipality.
 - is a member of the management of the municipality or its controlling entity.
- (b) An entity is related to the municipality if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.27 Related parties (continued)

- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
- both entities are joint ventures of the same third party.
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- the entity is a post-employment benefit plan for the benefit of employees of either the municipality or an entity related to the municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
- the entity is controlled or jointly controlled by a person identified in (a).
- a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities of the municipality, including:

- (a) all members of the governing body of the municipality;
- (b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the municipality;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the municipality; and
- (d) the senior management team of the municipality, including the chief executive officer or permanent head of the municipality, unless already included in (a).

Management personnel include:

- (a) All directors or members of the governing body of the municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the municipality.

The municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.29 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

1.30 Accumulated surplus

The municipality's surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 16 (as revised 2015) Investment property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality has adopted the standard for the first time in the 2017 financial statements.

The impact of the standard is not material as the municipality has no investment properties.

GRAP 17 (as amended 2015) Property, Plant and equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality has adopted the standard for the first time in the 2017 financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the financial statements.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2019 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 106 (as amended 2016): Transfers of functions between entities not under common control

Amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control resulted from changes made to IFRS 3 on Business Combinations (IFRS 3) as a result of the IASB's amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:

- IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

Amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods but are not relevant to its operations:

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 18 (as amended 2016): Segment Reporting

Amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the amendment is for years beginning on or after 01 April 2018

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 27 (as amended 2016): Agriculture

Amendments to the Standard of GRAP on Agriculture resulted from changes made to IPSAS 27 on Agriculture (IPSAS 27) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27. In addition to the changes made by the IPSASB, a consequential amendment has been made to GRAP 103 on Heritage Assets. The IPSASB currently does not have a pronouncement on this topic.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the interpretation until such time as it becomes applicable to the municipality's operations.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

3. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	20 716 563	-	20 716 563	19 996 682	-	19 996 682

Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	19 996 682	719 881	20 716 563

Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Total
Investment property	18 918 337	1 078 345	19 996 682

Pledged as security

No investment property was pledged as security for any financial liability at year-end:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The effective date of the revaluations was 30 June 2015. Revaluations were performed by an independent valuer, Mr Z Van Der Merewe (registered with the South African Council for the Property Valuers as a Professional Valuer, registration number 4973/1), of I@T Consulting (Pty) Ltd. I@T Consulting (Pty) Ltd is not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation is based on a unit rate determined to reflect the fair value under current market conditions at 30 June 2015. The fair value adjustments are based on the house price index being 3.6% in 2017 and 5.7% in 2016.

Deemed cost

Deemed cost was determined using fair value.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	88 771 420	(51 631 474)	37 139 946	88 596 570	(48 222 615)	40 373 955
Infrastructure	2 227 764 296	(1 035 200 214)	1 192 564 082	2 207 708 397	(966 148 873)	1 241 559 524
Community	214 949 269	(133 081 354)	81 867 915	214 270 649	(127 581 326)	86 689 323
Other property, plant and equipment	36 720 213	(24 301 959)	12 418 254	37 204 992	(23 315 859)	13 889 133
Work in progress	51 341 172	-	51 341 172	39 895 061	-	39 895 061
Total	2 619 546 370	(1 244 215 001)	1 375 331 369	2 587 675 669	(1 165 268 673)	1 422 406 996

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land and buildings	40 373 955	-	-	174 850	-	(3 408 859)	37 139 946
Infrastructure	1 241 559 524	-	(90 969)	20 602 806	(346 017)	(69 161 262)	1 192 564 082
Community	86 689 323	-	-	678 621	-	(5 500 029)	81 867 915
Other property, plant and equipment	13 889 133	1 273 891	(343 805)	-	-	(2 400 964)	12 418 254
Work in progress	39 895 061	32 902 388	-	(21 456 277)	-	-	51 341 172
	1 422 406 996	34 176 279	(434 774)	-	(346 017)	(80 471 114)	1 375 331 369

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land and buildings	43 772 092	-	-	-	-	(3 398 137)	-	40 373 955
Infrastructure	1 283 028 480	-	(1 224 642)	28 544 739	(290 722)	(68 498 331)	-	1 241 559 524
Community	92 111 914	-	-	60 000	-	(5 482 591)	-	86 689 323
Other property, plant and equipment	15 590 583	1 243 980	(34 464)	-	-	(2 910 966)	-	13 889 133
Work in progress	15 725 529	52 882 832	-	(28 604 739)	-	-	(108 561)	39 895 061
	1 450 228 598	54 126 812	(1 259 106)	-	(290 722)	(80 290 025)	(108 561)	1 422 406 996

Pledged as security

No property, plant and equipment has been pledged as security for any financial liability at year-end.:

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	39 895 061	39 895 061
Additions/capital expenditure	32 902 388	32 902 388
Transferred to completed items	(21 456 277)	(21 456 277)
	51 341 172	51 341 172

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Total
Opening balance	15 725 529	15 725 529
Additions/capital expenditure	52 882 832	52 882 832
Impairment loss	(108 561)	(108 561)
Transferred to completed items	(28 604 739)	(28 604 739)
	39 895 061	39 895 061

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Deemed cost

Deemed cost was determined using the depreciated replacement cost.

5. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and licences	758 792	(448 552)	310 240	790 832	(317 178)	473 654
Servitudes	2 131 910	-	2 131 910	2 131 910	-	2 131 910
Total	2 890 702	(448 552)	2 442 150	2 922 742	(317 178)	2 605 564

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software and licences	473 654	27 200	(25 857)	(164 757)	310 240
Servitudes	2 131 910	-	-	-	2 131 910
	2 605 564	27 200	(25 857)	(164 757)	2 442 150

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software and licences	282 188	556 734	(365 268)	473 654
Servitudes	2 131 910	-	-	2 131 910
	2 414 098	556 734	(365 268)	2 605 564

Pledged as security

No intangible assets are pledged as security for any financial liability at year-end.

Deemed cost

Deemed cost was determined using the depreciated replacement cost.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

6. Heritage assets

	2017			2016		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	17 728	-	17 728	17 728	-	17 728
Historical buildings, monuments and conservation areas	7 617 335	-	7 617 335	7 617 335	-	7 617 335
Total	7 635 063	-	7 635 063	7 635 063	-	7 635 063

Reconciliation of heritage assets 2017

	Opening balance	Total
Art Collections, antiquities and exhibits	17 728	17 728
Historical buildings, monuments and conservation areas	7 617 335	7 617 335
	7 635 063	7 635 063

Reconciliation of heritage assets 2016

	Opening balance	Total
Art Collections, antiquities and exhibits	17 728	17 728
Historical buildings, monuments and conservation areas	7 617 335	7 617 335
	7 635 063	7 635 063

Pledged as security

No heritage assets are pledged as security for any financial liability at year-end.

Deemed costs

Deemed cost was determined using the depreciated replacement cost.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

7. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of post retirement benefits	(9 564 000)	(15 787 637)
Present value of long service awards	(4 202 000)	(3 146 221)
	(13 766 000)	(18 933 858)

Non-current liabilities	(12 208 000)	(18 561 894)
Current liabilities	(1 558 000)	(371 964)
	(13 766 000)	(18 933 858)

Benefits

Post retirement	8 535 000	15 415 673
Long service awards	3 673 000	3 049 557
	12 208 000	18 465 230

Post retirement benefits

Post Retirement Medical Aid Benefit

Balance 1 July	(15 787 637)	(12 100 000)
Contribution for the year	(1 195 153)	(683 000)
Interest cost	(1 700 625)	(1 122 000)
Expenditure for the year	2 756 892	389 000
Actuarial gains/(losses)	6 362 523	(2 271 637)
Total post retirement benefit - 30 June	(9 564 000)	(15 787 637)
Less: Transfer to current portion	1 029 000	371 964
	(8 535 000)	(15 415 673)

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

Members

In-service (employee) members	93	93
In-service (employee) non-members	-	214
Continuation members (Pensioners)	11	11
	104	318

The liability in respect of past service has been estimated to be as follows:

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

7. Employee benefit obligations (continued)

Liability

In-service (employee) members	5 281 000	7 330 174
In-service (employee) non-members	-	3 681 463
Continuation members (Pensioners)	4 283 000	4 776 000
	9 564 000	15 787 637

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- LA Health
- Keyhealth
- Bonitas
- Hosmed
- Fedhealth
- Samwumed

Key actuarial assumptions used:

Discount rate	Yield Curve	8,94 %	9,56 %
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	7,05 %	8,58 %
Health Care Cost Inflation Rate	CPI+1%	8,05 %	6,06 %
Net Effective Discount Rate	Yield curve based	0,82 %	0,90 %

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve." We used the nominal and real zero curves as at 30 June 2017 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

Normal retirement age

It has been assumed that in-service members will retire at age 63, which then implicitly allows for expected rates of early and ill-health retirement.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

7. Employee benefit obligations (continued)

Mortality rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Sensitivity Analysis on the Accrued Liability

Assumption	Change	Change
Valuation Assumptions		9 564 000
Health care inflation	+1%	9 721 000
Health care inflation	-1%	9 347 000
Mortality rate	+20%	9 001 000
Mortality rate	-20%	10 222 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017

Assumption	Change	Current service	Interest Cost
Valuation Assumption		420 000	1 025 000
Health care inflation	+1%	428 000	1 042 000
Health care inflation	-1%	408 000	1 001 000
Mortality rate	+20%	394 000	963 000
Mortality rate	-20%	450 000	1 097 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017

Long service award

Long service award

Balance 1 July	(3 146 221)	(3 025 000)
Current service cost	(408 482)	(378 000)
Interest cost	(265 454)	(282 000)
Expenditure for the year	44 600	245 000
Actuarial gains/(losses)	(426 443)	293 779
Subtotal	(4 202 000)	(3 146 221)
Less: Transfer to current portion	529 000	96 664
Balance 30 June	(3 673 000)	(3 049 557)

The Long Service Award is a defined benefit plan, of which the members are made up as follows:

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

7. Employee benefit obligations (continued)

Total eligible

As at year end, the following number of employees were eligible for long service bonuses.

391	307
-----	-----

Key actuarial assumptions used:

Discount rate	Yield Curve	8,57 %	8,57 %
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	6,22 %	6,10 %
Health Care Cost Inflation Rate	CPI+1%	7,22 %	7,22 %
Net Effective Discount Rate	Yield curve based	1,25 %	1,25 %

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve." We use the nominal and real zero curves as at 30 June 2017 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2017 of 7.36%. The next salary increase was assumed to take place on 01 July 2018.

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Sensitivity Analysis on the unfunded accrued liability:

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

7. Employee benefit obligations (continued)

Assumption	Change	Liability
Valuation assumptions		4 202 000
General salary inflation	+1%	4 497 000
General salary inflation	-1%	3 936 000
Withdrawal rate	+20%	3 984 000
Withdrawal rate	-20%	4 449 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017

Assumption	Change	Current service cost	Interest cost
Valuation Assumption		545 000	452 000
General salary inflation	+1%	599 000	485 000
General salary inflation	-1%	499 000	423 000
Withdrawal rate	+20%	496 000	428 000
Withdrawal rate	-20%	603 000	481 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017

8. Receivables from exchange transactions

Receivables from exchange transactions includes debtors which have concluded arrangements with the municipality for their arrear accounts at year end. The portion of the arrangement which exceeds 12 months from year-end date is treated as a long term receivable from exchange transactions.

Heading

Carry value of arrangement debtors at year end	3 270 640	5 709 225
Less: short-term portion	(1 321 437)	(2 559 740)
	1 949 203	3 149 485

9. Inventories

Water - at cost	646 680	381 368
Consumable stores	1 254 240	1 490 672
	1 900 920	1 872 040

Inventory pledged as security

No inventory was pledged as security for any financial liability at year-end.

10. Other receivables from exchange transactions

Sundry debtors	135 739	104 820
----------------	---------	---------

Other receivables from exchange transactions pledged as security

No other receivables from exchange transactions were pledged as security for any financial liability at year-end..

Credit quality of other receivables from exchange transactions

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

10. Other receivables from exchange transactions (continued)

Other receivables from exchange transactions past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 126 504 (2016: R 104 820) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	126 504	104 820
-------------------	---------	---------

11. Receivables from non-exchange transactions

Traffic fines	18 905	18 905
Property rates	6 229 277	4 766 477
	6 248 182	4 785 382

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions were pledged as security for any financial liability at year-end. The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation.

Property rates: Ageing

Current (0 - 30 days)	1 897 898	1 466 594
31 - 60 days	1 520 324	1 343 371
61 - 90 days	1 488 050	1 884 388
91 days +	44 427 793	32 700 569
Less: Impairment	(43 104 788)	(32 628 445)
	6 229 277	4 766 477

Property rates by classification: consumers

Current (0 - 30 days)	773 329	740 504
31 - 60 days	557 967	618 758
61 - 90 days	566 714	1 102 384
91 days +	22 233 026	17 767 230
Less: Impairment	(22 568 914)	(18 582 390)
	1 562 122	1 646 486

Property rates by classification: Industrial / commercial

Current (0 - 30 days)	1 026 540	631 593
31 - 60 days	862 425	633 392
61 - 90 days	824 584	612 905
91 days +	18 037 357	12 299 825
Less: Impairment	(20 535 874)	(14 046 055)
	215 032	131 660

Property rates by classification: National and Provincial

Current (0 - 30 days)	98 031	94 498
31 - 60 days	99 933	91 221
61 - 90 days	96 751	169 098
91 days +	4 157 408	2 633 514
	4 452 123	2 988 331

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
11. Receivables from non-exchange transactions (continued)		
Total		
Current (0 - 30 days)	1 897 898	1 466 595
31 - 60 days	1 520 324	1 343 371
61 - 90 days	1 488 050	1 884 387
91 days +	44 427 793	32 700 569
Less: Impairment	(43 104 788)	(32 628 445)
	6 229 277	4 766 477

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Fair value of receivables from non-exchange transactions

Property rates debtors are payable within 30 days. The credit period is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of property rates debtors is not performed in terms of GRAP 104 on initial recognition.

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 6 248 182 (2016: R 4 785 382) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 - 3 months past due (Property rates)	6 229 277	4 766 477
1 - 3 months past due (Traffic fines)	18 905	18 905

Receivables from non-exchange transactions impaired

As of 30 June 2017, receivables from non-exchange transactions of R 43 104 788 (2016: R 32 628 445) were impaired and provided for.

The ageing of these loans is as follows:

1 to 6 months (Property rates)	43 104 788	32 628 445
--------------------------------	------------	------------

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(32 628 445)	(25 902 597)
Provision for impairment	(10 476 343)	(6 725 848)
	(43 104 788)	(32 628 445)

12. VAT receivable

VAT	17 484 660	13 769 602
-----	------------	------------

Input Vat receivable relates to input Vat on creditors invoices not yet paid at year-end, as well as output Vat levied on receivables from exchange transactions not yet received at year-end, these transactions will only be claimed from or declared to SARS when they are paid or received as the Municipality is registered for VAT on the cash basis.

The carrying value amount of VAT receivable approximates fair value due to its short-term nature.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
13. Receivables from exchange transactions		
Gross balances		
Electricity	22 931 334	12 339 703
Water	82 945 381	67 786 999
Interest	88 418 374	67 983 309
Sewerage	60 619 760	50 749 983
Refuse	39 373 517	32 964 799
Sundry	39 390 280	35 178 667
	333 678 646	267 003 460
Less: Allowance for impairment		
Electricity	(10 803 977)	(7 200 821)
Water	(78 487 518)	(66 512 781)
Interest	(86 284 116)	(66 970 917)
Sewerage	(59 698 554)	(50 410 776)
Refuse	(39 046 263)	(32 842 026)
Sundry	(32 627 863)	(28 256 091)
	(306 948 291)	(252 193 412)
Net balance		
Electricity	12 127 357	5 138 882
Water	4 457 863	1 274 218
Interest	2 134 258	1 012 392
Sewerage	921 206	339 207
Refuse	327 254	122 773
Sundry	6 762 417	6 922 576
	26 730 355	14 810 048
Electricity		
Current (0 -30 days)	6 645 878	4 281 688
31 - 60 days	2 074 471	1 589 134
61 - 90 days	1 796 438	578 998
> 90 days	12 414 547	5 889 883
Less: Allowance for impairment	(10 803 977)	(7 200 821)
	12 127 357	5 138 882
Water		
Current (0 -30 days)	4 387 681	2 170 494
31 - 60 days	1 977 440	1 546 513
61 - 90 days	2 050 508	1 888 943
> 90 days	74 529 752	62 181 049
Less: Allowance for impairment	(78 487 518)	(66 512 781)
	4 457 863	1 274 218
Interest		
Current (0 -30 days)	2 107 770	1 555 569
31 - 60 days	2 057 665	1 531 372
61 - 90 days	2 000 795	1 477 703
91 - 120 days	82 252 143	63 418 665
> 365 days	(86 284 115)	(66 970 917)
	2 134 258	1 012 392

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
13. Receivables from exchange transactions (continued)		
Sewerage		
Current (0 -30 days)	1 103 092	812 053
31 - 60 days	932 660	788 401
61 - 90 days	905 702	701 954
> 90 days	57 678 306	48 447 575
Less: Allowance for impairment	(59 698 554)	(50 410 776)
	921 206	339 207
Refuse		
Current (0 -30 days)	688 547	525 439
31 - 60 days	607 413	528 237
61 - 90 days	590 463	453 680
> 90 days	37 487 094	31 457 443
Less: Allowance for impairment	(39 046 263)	(32 842 026)
	327 254	122 773
Sundry		
Current (0 -30 days)	1 633 817	1 062 805
31 - 60 days	752 829	635 513
61 - 90 days	825 037	525 527
> 90 days	36 178 598	32 954 822
Less: Allowance for impairment	(32 627 864)	(28 256 091)
	6 762 417	6 922 576
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	11 340 253	6 169 731
31 - 60 days	6 200 124	5 240 261
61 - 90 days	6 326 142	5 827 981
> 90 days	279 799 527	229 115 922
	303 666 046	246 353 895
Less: Allowance for impairment	(295 833 850)	(243 687 266)
	7 832 196	2 666 629
Industrial/ commercial		
Current (0 -30 days)	4 454 536	4 684 166
31 - 60 days	1 486 173	2 219 363
61 - 90 days	1 220 503	1 090 616
> 90 days	9 037 407	3 908 224
	16 198 619	11 902 369
Less: Allowance for impairment	(11 114 441)	(8 498 112)
	5 084 178	3 404 257
National and provincial government		
Current (0 -30 days)	769 385	758 394
31 - 60 days	716 181	502 919
61 - 90 days	622 297	592 594
> 90 days	11 706 118	6 895 746
	13 813 981	8 749 653

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
13. Receivables from exchange transactions (continued)		
Total		
Current (0 -30 days)	16 564 174	11 601 800
31 - 60 days	8 402 478	7 962 543
61 - 90 days	8 168 942	7 511 191
> 90 days	300 543 052	239 927 926
	<u>333 678 646</u>	<u>267 003 460</u>
Less: Allowance for impairment	(306 948 291)	(252 193 412)
	26 730 355	14 810 048
Less: Allowance for impairment		
> 90 days	(306 948 291)	(252 193 412)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(252 193 412)	(207 776 528)
Contributions to allowance	(54 754 879)	(44 416 884)
	<u>(306 948 291)</u>	<u>(252 193 412)</u>

Receivables from exchange transactions pledged as security

No receivables from exchange transactions were pledged as security for any financial liability at year-end

Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Terms of receivables from exchange transactions

Receivables from exchange transactions are payable within 30 days. The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of receivables from exchange transactions on initial recognition is not deemed necessary.

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 26 730 355 (2016: R 14 810 048) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	26 730 355	14 810 048
------------------	------------	------------

Receivables from exchange transactions impaired

As of 30 June 2017, consumer debtors of R 306 948 291 (2016: R 252 193 412) were impaired and provided for.

The ageing of these loans is as follows:

3 to 6 months	306 948 291	252 193 412
---------------	-------------	-------------

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 395	1 395
Bank balances	18 931 294	889 639
Short-term deposits	2 581 355	2 471 604
	21 514 044	3 362 638

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
ABSA Bank - 1930000309	7 154 323	96 232	1 529 339	7 154 323	96 232	1 529 339
Standard Bank - 042608643000 (Primary Bank Account)	11 776 971	806 365	570 569	11 776 971	793 408	180 811
ABSA Bank - General Call Account - Projects - 911851699	2 581 355	2 471 603	2 351 853	2 581 355	2 471 603	2 351 853
Petty cash float	1 395	-	-	1 395	1 395	1 395
Total	21 514 044	3 374 200	4 451 761	21 514 044	3 362 638	4 063 398

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts at year are not fully cashed-backed. Conditional grants may only be utilised for the purpose it was allocated for. If the conditions of any conditional grant has not been met the unspent portion must still be available in cash as the conditional grant has been received. If the unspent conditional grant is not cash-backed it means that the un backed portion has been utilised for purposes other than the conditional grant's intended purpose. In terms of Section 33(d) of the Division of Revenue Act 2016, any expenditure incurred in contravention of the Act must be reported as irregular expenditure.

The unspent portion of conditional grants and receipts as at 30 June 2017 amounts to R22,428,181 (2016 - R3,720,446) and the available cash as at 30 June 2017 amounts to R21,514,044 (2016 - R3,362,638) . This means that an amount of at least R91,137 (2016 - R357,808) has been utilised for purposes other than the conditional grants intended purpose.

The municipality complied with the conditions attached to all grants received to the extent of the revenue recognised.

Unspent conditional grants and receipts can be mainly attributed to projects that are work in progress at the relevant year-end.

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Systems Improvement Grant (MSIG)	192 582	192 582
COGHSTA Grant	42 778	42 778
Finace Management Grant (FMG)	392 365	243 392
Water Service Operating Grant (WSOG)	454 636	454 636
Northern Cape Roads Grant (NCRG)	1 364 572	1 364 572
Library Grant	2 380 805	1 110 111
Northern Cape Public Works Grant (NCPWG)	312 375	312 375
Municipal Infrastructure Grant (MIG)	17 280 507	-
Expanded Public Works Program (EPWP)	7 561	-
	22 428 181	3 720 446

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

15. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	3 720 446	2 507 119
Additions during the year	139 670 944	143 760 439
Income recognition during the year	(120 963 209)	(142 547 112)
	22 428 181	3 720 446

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

16. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	18 666 244	(346 016)	329 346	18 649 574

Reconciliation of provisions - 2016

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	18 613 866	(290 723)	343 101	18 666 244
Non-current liabilities			18 062 061	17 749 385
Current liabilities			587 513	916 859
			18 649 574	18 666 244

Environmental rehabilitation provision

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. The assumptions used are as follows:

Area of the rehabilitation sites	Jan Kempdorp	Hartswater (Old)	Hartswater (New)	Ganspan	Pampierstad
Area (ha)	2,9	2,3	4,8	4,6	1,9

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. Total cost and estimated date of decommission of the sites are as follows:

The municipality does not have a permit of licence for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

16. Provisions (continued)

Liabilities are present obligations arising from past events, the settlement of which is expected to result in an outflow from the municipalities resources embodying economic benefits. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Environment Management Act, Act 107 of 1998, section 3(14)-(16) and 4(10) of Government Notice 718 of 3 July 2009 and the landfill permits issued under section 50 of the National Environmental Management: Waste Act, Act 59 of 2008.

The following key assumptions are used:

GRAP 19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to the market yields (at the financial position date) on government bonds. The currency and terms of the government bonds should be consistent with the currency and estimated term/life of the landfill site.

As such a net discount rate of 5.36% p.a (2016 - 1.35%) has been used. The net discount rate was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the market closed on 30 June 2017 reduced by the contract price adjustment index (CPAF) as obtained from the South African Forum of Civil Engineering Contractors (SAFCEC).

Municipal site	Year	2017 Provision	2016 Provision	2015 Provision
Old Hartswater	2 016	2 744 373	2 744 373	2 744 373
New Hartswater	2 018	4 076 170	4 092 841	4 040 462
Jan Kempdorp	2 015	3 303 173	3 303 173	3 303 173
Ganspan	2 016	5 577 986	5 577 986	5 577 986
Pampierstad	2 016	2 947 872	2 947 872	2 947 872
		18 649 574	18 666 245	18 613 866

17. Payables from exchange transactions

Trade payables	97 354 146	55 260 741
Payments received in advanced	7 330 918	3 767 142
Sundry creditors	260 581	348
Staff leave accrual	6 479 184	5 376 454
Staff bonus accrual	1 937 654	1 532 824
Payroll control account	3 610	1 878 650
	113 366 093	67 816 159

18. Consumer deposits

Electricity	2 852 501	2 704 829
Hall rentals	5 616	4 293
	2 858 117	2 709 122

19. Revenue

Service charges	125 422 915	110 305 855
Rental of facilities and equipment	597 608	427 373
Interest received (trading)	22 172 287	16 842 135
Other income	5 594 140	4 374 630
Interest received - investment	1 002 601	880 761
Property rates	21 946 673	17 309 071
Government grants & subsidies	120 963 209	142 547 112
Fines, Penalties and Forfeits	37 790	221 050
	297 737 223	292 907 987

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
19. Revenue (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	125 422 915	110 305 855
Rental of facilities and equipment	597 608	427 373
Interest received (trading)	22 172 287	16 842 135
Other income	5 594 140	4 374 630
Interest received - investment	1 002 601	880 761
	154 789 551	132 830 754
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	21 946 673	17 309 071
Transfer revenue		
Government grants & subsidies	120 963 209	142 547 112
Fines, Penalties and Forfeits	37 790	221 050
	142 947 672	160 077 233
20. Service charges		
Sale of electricity	78 056 662	69 683 237
Sale of water	28 254 939	27 236 308
Sewerage and sanitation charges	13 747 046	12 794 926
Refuse removal	8 931 132	8 308 629
Indingents subsidies paid	(3 566 864)	(7 717 245)
	125 422 915	110 305 855
21. Rental of facilities and equipment		
Premises		
Premises	590 999	413 231
Facilities and equipment		
Rental of facilities	6 609	14 142
	597 608	427 373
22. Other revenue		
Other income	5 594 140	4 374 630
23. Investment revenue		
Interest revenue		
Bank	1 002 601	880 761
24. Property rates		
Rates received		
Property rates	21 946 673	17 309 071

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

25. Government grants and subsidies

Operating grants

Equitable share	79 265 000	75 484 000
Municipal Systems Improvement Grant	-	977 700
Finance Management Grant	1 661 027	1 655 927
Expanded Public Works Programme Grant	1 029 439	1 170 000
Library grant	500 306	723 682
Frances Baard District Municipality Operating Grant	5 799 343	5 333 271
	88 255 115	85 344 580

Capital grants

Municipal Infrastructure Grant (MIG)	27 783 493	25 487 000
Intergrated National Electrification Grant	2 500 000	1 000 000
Water Systems Operating Grant	-	24 515 313
Frances Baard District Municipality Capital Grant	2 424 601	6 200 219
	32 708 094	57 202 532
	120 963 209	142 547 112

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	41 698 209	67 063 112
Unconditional grants received	79 265 000	75 484 000
	120 963 209	142 547 112

Municipal Systems Improvement Grant

Balance unspent at beginning of year	192 582	240 282
Current-year receipts	-	930 000
Conditions met - transferred to revenue	-	(977 700)
	192 582	192 582

Conditions still to be met - remain liabilities (see note 15).

COGHSTA Grant

Balance unspent at beginning of year	42 778	42 778
--------------------------------------	--------	--------

Conditions still to be met - remain liabilities (see note 15).

Frances Baard District Municipality Grant

Current-year receipts	8 223 944	11 533 490
Conditions met - transferred to revenue	(8 223 944)	(11 533 490)
	-	-

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
25. Government grants and subsidies (continued)		
Finance Management Grant		
Balance unspent at beginning of year	243 392	224 319
Current-year receipts	1 810 000	1 675 000
Conditions met - transferred to revenue	(1 661 027)	(1 655 927)
	392 365	243 392
Conditions still to be met - remain liabilities (see note 15).		
Water System Operating Grant		
Balance unspent at beginning of year	454 636	454 636
Conditions still to be met - remain liabilities (see note 15).		
Intergrated National Electrification Programme Grant		
Current-year receipts	2 500 000	1 000 000
Conditions met - transferred to revenue	(2 500 000)	(1 000 000)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
Northern Cape Roads Grant		
Balance unspent at beginning of year	1 364 572	1 364 572
Conditions still to be met - remain liabilities (see note 15).		
Library Grant		
Balance unspent at beginning of year	1 110 111	322 793
Current-year receipts	1 771 000	1 510 000
Conditions met - transferred to revenue	(500 306)	(722 682)
	2 380 805	1 110 111
Conditions still to be met - remain liabilities (see note 15).		
NC Public Works Grant		
Balance unspent at beginning of year	312 375	312 375
Conditions still to be met - remain liabilities (see note 15).		
Municipal Infrastructure Grant		
Current-year receipts	45 064 000	25 487 000
Conditions met - transferred to revenue	(27 783 493)	(25 487 000)
	17 280 507	-
Conditions still to be met - remain liabilities (see note 15).		

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

25. Government grants and subsidies (continued)

Equitable Share

Current-year receipts	79 265 000	75 484 000
Conditions met - transferred to revenue	(79 265 000)	(75 484 000)
	-	-

In terms of the Constitution, this grant is used to subsidise the provision of free basic services to indigent community members.

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated to the municipality in terms of Section 214 of the Constitution (Act 108 of 1996) by National Treasury.

Expanded Public Works Programme Grant

Current-year receipts	1 037 000	1 170 000
Conditions met - transferred to revenue	(1 029 439)	(1 170 000)
	7 561	-

Conditions still to be met - remain liabilities (see note 15).

26. Employee related costs

Basic	50 955 907	44 772 124
Bonus	4 156 359	3 530 898
Medical aid	1 195 153	3 902 219
UIF	531 066	403 190
SDL	588 724	496 037
Other payroll levies	34 184	27 499
Leave pay provision charge	1 423 087	213 304
Travel, motor car, accommodation, subsistence and other allowances	2 204 439	1 629 856
Overtime payments	3 974 111	2 965 137
Long-service awards	408 482	544 735
Acting allowances	503 847	393 161
Housing benefits and allowances	176 487	164 610
Pension and provident fund	9 240 060	8 014 649
	75 391 906	67 057 419

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
26. Employee related costs (continued)		
Remuneration of municipal manager - Adv. MC Mogale		
Annual Remuneration	248 631	-
Car Allowance	76 144	-
Cellphone allowance	4 000	-
Contributions to UIF, Medical and Pension Funds	64 891	-
	393 666	-
Remuneration of Acting Municipal Manager - Z Nikani		
Annual Remuneration	-	440 438
Car Allowance	-	75 503
Cellphone allowance	-	5 724
Annual bonus	-	43 500
Contributions to UIF, Medical and Pension Funds	-	72 083
	-	637 248
Remuneration of Chief Finance Officer - Mrs H Basson		
Annual Remuneration	526 314	527 655
Car Allowance	-	95 068
Cellphone allowance	6 000	3 200
Housing allowance	55 000	38 000
Leave payout	118 822	-
Annual bonus	54 068	48 914
Contributions to UIF, Medical and Pension Funds	1 400	1 487
	761 604	714 324
Remuneration of Chief Finance Officer - Mr MK Khoabane		
Annual Remuneration	220 442	-
Car Allowance	48 000	-
Cellphone allowance	3 200	-
Contributions to UIF, Medical and Pension Funds	626	-
	272 268	-
Remuneration of Chief Finance Officer - Mr TP Sediti		
Annual Remuneration	-	131 316
Car Allowance	-	29 858
Cellphone allowance	-	1 950
Housing allowance	-	19 776
Leave payout	-	78 159
Annual bonus	-	18 238
Contributions to UIF, Medical and Pension Funds	-	10 470
	-	289 767

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

26. Employee related costs (continued)

Remuneration of Director of Operations - Mr Z Nikani

Annual Remuneration	522 000	522 000
Car Allowance	100 677	100 671
Cellphone allowance	7 632	7 632
Annual bonus	43 500	43 500
Acting allowance	38 063	-
Contributions to UIF, Medical and Pension Funds	96 202	103 073
	808 074	776 876

Remuneration of Human Settlement Director - Mr R Sengani

Annual Remuneration	462 000	462 000
Car Allowance	97 622	98 648
Cellphone allowance	7 632	7 632
Annual bonus	38 500	38 500
Housing allowance	39 703	43 202
Contributions to UIF, Medical and Pension Funds	124 543	124 944
	770 000	774 926

Remuneration of Corporate Services Director - Mr MS Mojaki

Annual Remuneration	109 751	-
Car Allowance	29 990	-
Cellphone	1 908	-
Annual bonus	59	-
Contributions to UIF, Medical and Pension Funds	31 837	-
	173 545	-

27. Remuneration of councillors

Executive Major	657 564	675 163
Speaker	458 555	568 754
Councillors	4 206 405	3 500 250
	5 322 524	4 744 167

The Mayor and Speaker are full time. Each is provided with an office and shared secretarial support at the cost of the Council.

The mayor has use of a Council owned vehicle for official duties.

28. Depreciation and amortisation

Property, plant and equipment	80 206 862	80 655 294
-------------------------------	------------	------------

29. Finance costs

Non-current liabilities	2 912 564	343 101
Trade and other payables	3 617 349	745 339
	6 529 913	1 088 440

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
30. Debt impairment		
Debt impairment	60 878 734	47 389 875
31. Repairs and maintenance		
Water network	3 097 367	5 891 366
Electrical network	2 156 077	1 527 404
Buildings, community halls and grounds	1 099 185	1 088 960
Cemetries	1 816	201 582
Plant and machinery	1 443 674	809 599
Office equipment	133 072	562 136
Landfill sites	184 427	252 302
Road network	1 294 468	1 240 032
Sanitation network	838 036	293 290
Motor vehicles	1 177 753	1 248 088
Other	115 429	87 446
	11 541 304	13 202 205
32. Bulk purchases		
Electricity	61 063 951	57 317 772
Water	46 039 001	45 675 224
	107 102 952	102 992 996
33. Contracted services		
Operating Leases	416 903	343 551
Specialist Services	7 634 755	9 516 390
	8 051 658	9 859 941

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
34. General expenses		
Advertising	247 997	401 119
Auditors remuneration	1 490 260	3 705 011
Bank charges	443 308	275 763
Cleaning	348 500	78 709
Consulting and professional fees	1 275 605	2 938 256
Discount allowed	-	354 750
Entertainment	689 638	712 040
Insurance	287 710	515 676
Conferences and seminars	49 098	1 720
Magazines, books and periodicals	43 449	41 850
Motor vehicle expenses	782 177	393 396
Fuel and oil	1 836 786	1 470 978
Postage and courier	280 503	488 040
Printing and stationery	609 269	817 325
Protective clothing	207 823	511 144
Security (Guarding of municipal property)	1 750 740	1 669 516
Bursaries	102 000	21 745
Subscriptions and membership fees	651 444	92 961
Telephone and fax	1 946 067	1 522 033
Transport and freight	569 349	71 000
Training	833 166	952 709
Travel - local	2 693 957	2 765 131
Other expenses	295 416	182 608
Agency fees	869 631	751 189
Sample analysis	264 627	210 240
Chemicals	1 541 378	1 428 779
	20 109 898	22 373 688
35. Auditors' remuneration		
Fees	1 490 260	3 705 011
36. Cash generated from operations		
Deficit	(71 632 207)	(58 833 745)
Adjustments for:		
Depreciation and amortisation	80 206 862	80 655 294
Gain on sale of assets and liabilities	460 632	1 259 107
Fair value adjustments	(719 881)	(1 078 345)
Impairment deficit	429 008	-
Debt impairment	60 878 734	47 389 875
Movements in retirement benefit assets and liabilities	(5 167 858)	6 833 858
Movements in provisions	(16 670)	52 378
Changes in working capital:		
Inventories	(28 880)	59 472 446
Other receivables from exchange transactions	(30 919)	1 661 393
Receivable from exchange transactions	(72 799 041)	(44 449 494)
Other receivables from non-exchange transactions	(1 462 800)	(7 766 262)
Receivable from exchange transactions - non current	1 200 279	-
Payables from exchange transactions	45 549 935	29 070 827
VAT	(3 715 058)	598 127
Unspent conditional grants and receipts	18 707 735	1 213 327
Consumer deposits	148 995	64 940
	52 008 866	116 143 726

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

37. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	135 739	135 739
Other receivables from non-exchange transactions	6 248 182	6 248 182
Consumer debtors	26 730 355	26 730 355
Cash and cash equivalents	21 514 044	21 514 044
	54 628 320	54 628 320

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	113 366 093	113 366 093
Consumer deposits	2 858 117	2 858 117
Unspent grants and receipts	22 428 181	22 428 181
	138 652 391	138 652 391

2016

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	104 820	104 820
Other receivables from non-exchange transactions	4 785 382	4 785 382
Consumer debtors	14 810 048	14 810 048
Cash and cash equivalents	3 362 638	3 362 638
	23 062 888	23 062 888

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	67 816 159	67 816 159
Consumer deposits	2 709 122	2 709 122
Unspent grants and receipts	3 720 446	3 720 446
	74 245 727	74 245 727

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	84 291 160	17 153 830
---------------------------------	------------	------------

Total capital commitments

Already contracted for but not provided for	84 291 160	17 153 830
---	------------	------------

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

38. Commitments (continued)

Total commitments

Total commitments

Authorised capital expenditure	84 291 160	17 153 830
--------------------------------	------------	------------

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

39. Contingencies

Contingent liabilities

The following litigations have been raised against the municipality:

2017 Matters

	Legal representative	Status	Value of litigation
Afriforum vs Phokwane Local Municipality	Liesel Van DeMerwe Attorneys	In progress	Value not determined
CC Victor vs Phokwane Local Municipality	Towell & Groenewaldt	In progress	1 430 000
Telkom SA vs Phokwane Local Municipality	Not yet appointed	Received notice institute proceedings	45 000
Legenbau (Pty) Ltd vs Phokwane Local Municipality	Not yet appointed	Summons received	258 000
Adv AS Siebern obo Setologo	Office of the state Attorney	Consultation pending	6 113 575
	-	-	7 846 575

2016 Matters

	Legal representative	Status	Value of litigation
Afriforum vs Phokwane LM	Towell & Groenewaldt	In progress	Value not determined
Christoffel Johannes Jacobus Victor vs Phokwane LM	Towell & Groenewaldt	In progress	Value not determined
JM Maretela	Zebediela Attorneys	In progress	Value not determined
T. Choane vs Phokwane Municipality	Zebediela Attorneys	In progress	Settled into SALGBC
Phokwane Municipality vs Melvin Davids – Pothole Kolong Street Pampierstad third party	Marsh Africa/Commercial Practice Claims Services	In progress	Court order payment
GWK vs Phokwane Municipality	Faluchas Trading and Projects	In progress	Payments attached
OS & KW Setlhogo obo P Setlhogo vs Phokwane Municipality	Ntsoane Inc Attorneys	In progress	No information provided
Babereki Consulting Engineers vs Phokwane Municipality	BG Bojosinyane & Associates	In progress	19 037 58
	-	-	19 037 583

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

39. Contingencies (continued)

Contingent assets

The municipality had has issued a litigation against the following third party:

2017 matters

Tripple Seven Holdings/Karel Erasmus Albertse vs Phokwane Local Municipality
P Mona & others

Nxamane & others

Site 1507 Pampierstad

Legal representative	Status	Value of litigation
Van De Wall & Partners	In progress	Cost of suit
Van De Wall & Partners	In progress	Cost of suit
Van De Wall & Partners	In progress	Cost of suit
Van De Wall & Partners	In progress	Cost of suit

2016 Matter

Tripple Seven Holdings / Karel Erasmus Albertse vs Phokwane LM

Legal representative	Satus	Value of litigation
Office of the State Attorney	In progress	Value not determined

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

40. Related parties

Related party disclosure is considered in terms of the related party accounting policy as disclosed in the annual financial statements as GRAP 20 is not yet effective for municipalities. In terms of this policy management have considered the principles of control and joint control and have not identified any party irrespective if any transactions were entered into, in the records and operations of the municipality. Management have furthermore considered the internal controls, based on the economic utilisation of resources and have opted to use the existing internal controls of interest declarations by key staff, the declarations if any during bid committee processes and declarations from service providers who submit competitive bids in terms of the SCM regulations. Although other controls such as expensive third party confirmations are available to identify possible related parties, the municipality have accepted the current risk of disclosure.

Relationships

Accounting Officer

Refer to accounting officer's report note 26

Related party balances

Councillors

P Mona	-	30 701
GM Motebe	-	180 083
MA Moremongwe	349	327
S Nkomo	-	94 903
KB Sibanda	-	5 021
DM Morweng	-	10 287
J Adams	18 709	4 848
M Mashori	-	573
S Lewis	519	1 955
D Sillands	2 479	-
L Magerman	47 856	-
H Morometse	4 911	-
JP Chwarisang	18 493	-
HM Modiakgotla	14 241	-
JS Musie	5 038	-
GG Halter	24 310	-
TM Kolwane	36 369	-
KD Sedisho	26 188	-
KM Kalman	255	-
SJ Rudman	3 817	-
SS Thube	2 819	-
RB Dikodu	7 518	-

Municipal Manager and Section 57 employees

R Sengani	41 559	40 180
Z Nikani	38 136	24 893
H Basson	2 216	1 917
MS Mojaki	53 023	-

The compensation of key management personnel is set out in note xx to the Annual Financial Statements.

"The Chairperson of the Audit, Risk and Performance Committee for the 2015-16 financial year, resigned and Council accepted the resignation on 29 June 2016. Subsequent to year-end Mubesko Africa allocated Mr WMS Calitz to the Phokwane Local Municipal consulting team to assist with the gathering of information for the compilation of the annual financial statements. Mr Calitz is the technical manager of Mubesko Africa, and have declared in writing his conflict of interest as the previous Chairperson of the ARPC. Mr Calitz is not considered a related party in terms of our accounting policy, but in view of transparency this disclosure is added to related parties."

41. Prior period errors

The municipality corrected the following prior period errors retrospectively and restated the comparative amounts in terms of GRAP 3 - Accounting policies, Changes in Estimates and Errors.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

41. Prior period errors (continued)

The correction of the error(s) results in adjustments as follows:

41.1. Prior period error - Community assets misstated on the FAR

During the period under review it was noted that the prior year's community assets register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Increase in community assets	69 648 934
Increase in opening accumulated surplus / (deficit)	(72 573 504)
	(2 924 570)

Statement of financial performance

Increase in depreciation and amortisation	2 924 570
---	-----------

41.2. Prior period error - Capital work in progress

During the period under review it was noted that the prior year's capital work in progress assets register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Decrease in capital work in progress	(30 342 392)
Decrease in opening accumulated surplus / (deficit)	33 668 829
Increase in infrastructure	2 237 008
Increase in community assets	60 000
Increase in payables from exchange transactions	(867 399)
Increase in vat receivable	106 523
	4 862 569

Statement of financial performance:

Increase in government grants and subsidies	(11 533 490)
Increase in repairs and maintenance	4 035 714
Increase in general expenditure	2 526 646
Increase in impairment	108 561
	(4 862 569)

41.3. Prior period error - Intangible assets (servitudes) not recognised in the FAR

During the period under review it was noted that the prior year's intangible assets register was misstated as servitudes were not recognised at 30 June 2015. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Increase in intangible assets (servitudes)	2 131 910
Increase in opening accumulated surplus / (deficit)	(2 131 910)
	-

41.4. Prior period error - RDP Land disclosed as inventory

During the period under review it was noted that the prior year's RDP Land inventory assets register was misstated as RDP land inventory was incorrectly recognised at 30 June 2015. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
41. Prior period errors (continued)		
Statement of financial position:		
Decrease in inventory RDP Land		(59 483 000)
Decrease in opening accumulated surplus / (deficit)		59 483 000
		<u>-</u>
41.5. Prior period error - Other assets misstated in the FAR		
During the period under review it was noted that the movable assets register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Increase in other assets		205 987
Increase in opening accumulated surplus / (deficit)		(266 786)
		<u>(60 799)</u>
Statement of financial performance:		
Increase in depreciation and amortisation		64 323
Decrease in loss on sale of assets		(3 524)
		<u>60 799</u>
41.6. Prior period error - Landfill sites incorrectly recognised		
During the period under review it was noted that the prior year's landfill sites assets register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Decrease in landfill sites		(1 840 241)
Decrease in provision (rehabilitation landfill)		20 483 773
Decrease in opening accumulated surplus / (deficit)		5 031 531
		<u>23 675 063</u>
Statement of financial performance:		
Decrease in depreciation and impairment		(28 828 453)
Decrease in sundry revenue		6 255 219
Decrease in repairs and maintenance		(1 101 829)
		<u>(23 675 063)</u>
41.7. Prior period error - Land and buildings misstated on the FAR		
During the period under review it was noted that the prior year's land and buildings assets register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Decrease in land and buildings		(3 631 434)
Decrease in opening accumulated surplus / (deficit)		2 441 895
		<u>(1 189 539)</u>
Statement of financial performance:		
Increase in depreciation and amortisation		1 189 539

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
41. Prior period errors (continued)		
41.8. Prior period error - Investment property misstated on the FAR		
During the period under review it was noted that the prior year's investment property register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Decrease in investment properties		(48 748 865)
Decrease in opening accumulated surplus / (deficit)		49 827 211
		1 078 346
Statement of financial performance:		
Increase in fair value gain from investment properties		(1 078 346)
41.9. Prior period error - Intangible assets (computer software) misstated in the FAR		
During the period under review it was noted that the intangible assets register (computer software) was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Increase in intangible assets (computer software)		27 785
Increase in opening accumulated surplus / (deficit)		(84 702)
		(56 917)
Statement of financial performance:		
Increase in depreciation and amortisation		56 917
41.10. Prior period error - Infrastructure assets misstated on the FAR		
During the period under review it was noted that the prior year's infrastructure assets register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Increase in infrastructure assets		871 413 408
Increase in opening accumulated surplus / (deficit)		(818 015 487)
Decrease in provisions rehabilitation		290 722
		53 688 643
Statement of financial performance:		
Decrease in depreciation and amortisation		(54 913 286)
Increase in loss of disposal		1 224 643
		(53 688 643)
41.11. Prior period error - Heritage assets misstated on the FAR		
During the period under review it was noted that the prior year's heritage immovable fixed asset register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Increase in heritage assets		7 617 335

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
41. Prior period errors (continued)		
Increase in opening accumulated surplus / (deficit)		(7 617 335)
		-
41.12. Prior period error - Understatement of payables from exchange transactions		
During the period under review it was noted that the trade creditors balance was incorrectly stated due to certain invoices not being recorded and incorrect opening balances being carried forward. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Increase in payables from exchange transactions		(6 156 624)
Increase in VAT receivable		1 485 513
Increase in accumulated surplus/deficit		(5 830 336)
		(10 501 447)
Statement of Financial performance:		
Increase in bulk purchases		10 501 447
41.13. Prior period error - Correction of receivables from exchange transactions		
During the period under review it was noted that sundry debtors and accrued income was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Decrease in sundry debtors		(25 193)
Decrease in accrued income		(5 412)
Decrease in opening accumulated surplus / (deficit)		25 193
		(5 412)
Statement of financial performance:		
Decrease in interest received - investments		5 412
41.14. Prior period error - Misstatement of leave and bonus provision		
During the period under review it was noted that the provisions for leave and bonus pay were misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Decrease in leave pay provision		188 401
Decrease in bonus provision		5 940
		194 341
Statement of Financial performance:		
Decrease in employee related costs		(194 341)

41.15. Prior period error - Misstatement of landfill site rehabilitation provision

During the period under review it was noted that the provision for landfill site rehabilitation was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position:

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
41. Prior period errors (continued)		
Increase in landfill site rehabilitation provision		(343 101)
Statement of Financial performance:		
Increase in finance costs		343 101
41.16. Prior period error - Misstatement of unspent grants and conditional receipts		
During the period under review it was noted that unspent grants and conditional receipts were misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Decrease in unspent grants and conditional receipts		71 019
Statement of Financial performance:		
Increase in government grants and subsidies		(71 019)
41.17 Prior period error - Misstatement of impairment of receivables from exchange and non exchange transactions		
During the period under review it was noted that the impairment for receivables from exchange and non exchange transactions were misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Increase in impairment receivables from exchange transactions		(287 829)
Decrease in impairment receivables from non-exchange transactions		3 053 627
Decrease in VAT receivable		(1 709 846)
		1 055 952
Statement of Financial performance:		
Decrease in debt impairment		(1 055 952)
41.18. Prior period error - Misstatement of receivables from exchange transactions		
During the period under review it was noted that the receivables from exchange transactions were misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Increase in receivables from exchange transactions		1 063 782
Decrease in VAT receivable		(130 640)
		933 142
Statement of Financial performance:		
Increase in service charges		(933 142)
41.19. Prior period error - Stale cheques not written back at year end		
During the period under review it was noted that the receivables from exchange transactions were misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Increase in cash and cash equivalents		179 855

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
41. Prior period errors (continued)		
Increase in payables from exchange transactions		(35 024)
		144 831
Statement of Financial performance:		
Decrease in general expenditure		(56 228)
Decrease in repairs and maintenance		(88 603)
		(144 831)
41.20. Prior period error - cash and cash equivalents misstated		
During the period under review it was noted that the cash and cash equivalents were misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Increase in cash and cash equivalents		1 041 478
Increase in payables from exchange transactions		(1 041 478)
		-

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

42. Comparative figures

Certain comparative figures have been reclassified.

During the year under review it was noted that the prior year account balances and totals were misstated due to missmapping of various general ledger accounts. That error has since been rectified in the current year.

The effects of the reclassification are as follows:

Statement of financial position - extract

	Comparative figures previously reported	Reclassification	After reclassification
Receivable from non-exchange transactions	18 905	4 766 477	4 785 382
Receivable from exchange transactions - current	22 726 011	(7 915 963)	14 810 048
Cash and cash equivalents - asset	3 514 477	(151 839)	3 362 638
Receivable from exchange transactions - non current	-	3 149 485	3 149 485
Long service awards - current	(96 994)	96 994	-
Provisions - current	(5 224 715)	4 307 856	(916 859)
Cash and cash equivalents - liability	(151 839)	151 839	-
Long service awards - non current	(3 049 227)	3 049 227	-
Employee benefit obligation	(15 415 673)	(3 146 221)	(18 561 894)
Provisions - non current	(13 441 530)	(4 307 855)	(17 749 385)
	(11 120 585)	-	(11 120 585)

Statement of financial performance - extract

	Comparative figures previously reported	Reclassification	Total
Service charges	121 308 602	(11 002 747)	110 305 855
Employee related costs	(66 644 032)	(413 387)	(67 057 419)
Remuneration of councillors	(5 677 729)	933 562	(4 744 167)
Lease rentals	(82 838)	82 838	-
Repairs and maintenance	(11 532 437)	(1 669 768)	(13 202 205)
Bulk purchases	(91 385 305)	(11 607 691)	(102 992 996)
Contracted services	(18 669 939)	8 809 998	(9 859 941)
Transfers and subsidies	(11 357 497)	11 357 497	-
General expenses	(27 861 244)	5 487 556	(22 373 688)
Actuarial gains / losses	-	(1 977 858)	(1 977 858)
	(111 902 419)	-	(111 902 419)

43. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

43. Risk management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, and therefore it is not exposed to interest rate risk.

Foreign exchange risk

The municipality does not engage in foreign exchange transactions.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Price risk

The municipality is not exposed to price risk.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

44. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had accumulated surpluses of R 1 311 020 283 and that the municipality's total assets exceed its total liabilities by R 1 311 020 283.

We draw attention to the fact that at 30 June 2017, a material uncertainty exists regarding the ability of the municipality to continue as a going concern.

These factors are listed below:

- 1) The provisions for the rehabilitation of landfill sites and employee benefit provisions are not cash backed;
- 2) Unspent conditional grants and conditional receipts are not totally cash backed as required;
- 3) Payables from exchange transactions increased by 67% when compared to the 2016 financial year;;
- 4) The consumer debtors increased despite an increase in the impairment provision;
- 5) Water distribution losses amounted to 60% (60% in 2016).
- 6) The municipality's current liabilities exceed its current assets by R 66 784 007 (R 36 830 022 in 2016) which indicates a current asset ratio which is below the required norm of between 1.5 - 2.
- 7) The municipality incurred a net deficit for the year under review of R 71 632 907 (R 59 912 092 in 2016), the major contributors to this change are increases in debt impairment, employee costs, remuneration of Councillors, bulk purchases finance costs and general expenses.

Even though the above uncertainties exist regarding the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that the funds will be available to finance future operations and that the realisation of assets and the settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continues to procure funding for the ongoing operations for the municipality.

Furthermore the municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality has implemented a system to enhance the revenue collection and cash flow by improving on the debt recoverability.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocations as published in terms of the Division of Revenue Act.

45. Events after the reporting date

The Chief Financial Officer, Mr MK Khoabane, resigned effective 30th November 2017.

46. Unauthorised expenditure

Opening balance	366 737 878	293 311 772
Unauthorised expenditure current year - Operating	61 057 190	73 426 106
	427 795 068	366 737 878

Details of unauthorised expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Overspending o budget votes	Awaiting council decision	61 057 190

Details of unauthorised expenditure - prior year

	Condoned by (condoning authority)	
Overspending on budget votes	Awaiting council decision	73 426 106

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
47. Fruitless and wasteful expenditure		
Fruitless and wasteful expenditure in prior years	1 767 549	1 022 210
Interest paid	3 617 349	745 339
	5 384 898	1 767 549
48. Irregular expenditure		
Opening balance	98 840 580	97 466 079
Add: Irregular Expenditure - current year	536 385	56 034
Add: Irregular Expenditure - current year conditional grants utilised operating expenditure	-	1 318 467
	99 376 965	98 840 580
Details of irregular expenditure – current year		
	Disciplinary steps taken/criminal proceedings	
Deviation approved after services were rendered. Management is in the process of determining the	536 385	
However the service that were rendered is completeness of irregular expenditure regulated under the OHS Act.		
Details of irregular expenditure - prior year		
	Condoned by (condoning authority)	
Deviation approved after services were rendered. Management is in the process of determining the	56 034	
However the service that were rendered is completeness of irregular expenditure regulated under the OHS Act.		
49. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	617 703	87 713
Amount paid - current year	(617 703)	(87 713)
	-	-

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
49. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Material losses		
Electricity distribution losses (KWh)		
KWh purchased	54 492 891	55 692 739
KWh sold	(48 893 078)	(47 085 550)
KWh losses	5 599 813	8 607 189
% losses	7	15
Average cost per KWh unit	0,67	0,628
Loss in Rand value	3 719 065	5 401 662
Water distribution losses (Mega litres)		
Mega litres purchased	4 546 053	4 692 980
Mega litres sold	(1 820 143)	(1 869 914)
Mega litres losses	2 725 910	2 823 066
% losses	60	60
Average cost per unit	3,373	3,180
Loss in Rand value	10 425 837	8 975 211
Audit fees		
Opening balance	1 840	-
Current year subscription / fee	1 705 861	4 253 234
Amount paid - current year	(997 034)	(4 251 394)
	710 667	1 840
PAYE and UIF		
Opening balance	-	531 470
Current year subscription / fee	8 984 987	7 630 168
Amount paid - current year	(8 984 987)	(8 161 638)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	17 870 592	5 314 333
Amount paid - current year	(17 870 592)	(5 314 333)
	-	-
VAT		
VAT receivable	17 484 660	13 769 602

All VAT returns have been submitted by the due date throughout the year.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

30 June 2017

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
D Sillands	408	2 070	2 478
L Magerman	1 398	46 458	47 856
S Lewis	519	-	519
MO Moremongwe	349	-	349
CJ Adams	6 003	12 707	18 710
H Morometse	212	4 699	4 911
JP Chwarisang	1 086	17 407	18 493
HM Modiakgotla	2 537	11 703	14 240
JS Musie	1 654	3 429	5 083
GG Halter	417	23 892	24 309
TM Kolwane	1 205	35 164	36 369
KD Sedisho	1 111	25 076	26 187
KM Kalman	255	-	255
SJ Rudman	1 308	2 509	3 817
SS Thube	17	144	161
MK Tivane	380	2 439	2 819
RB Dikodu	483	7 036	7 519
	19 342	194 733	214 075

30 June 2016

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
S Nkomo	2 649	96 495	99 144
HM Modiakgotla	2 218	7 276	9 494
FO Pitso	570	1 730	2 300
MF Mojapele	780	12 612	13 392
AS Mokoena	866	6 594	7 460
CJS Adams	4 370	6 296	10 666
KD Moshane	1 152	5 055	6 207
P Mona	2 880	31 796	34 676
GM Motebe	12 878	22 001	34 879
	28 363	189 855	218 218

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviations	2017	Number of deviations	2016	Number of deviations
Deviation approved before acquiring services / goods	478 516	10	1 147 562	16
Unavoidable	6 280	1	15 697	1
Regulated by legislation	51 990	1	56 034	1
	536 786	12	1 219 293	18

51. Budget differences

Material differences between budget and actual amounts

All variances greater / less than 10% will be explained on the final Annual Financial Statements for the year ended 30 June 2017.

X1: Variance below 10%, therefore insignificant.

X2: Variance below 10%, therefore insignificant.

X3: Economic climate has impacted on debtors payment percentages and therefore interest levied higher than expected.

X4: Agency services were no longer required as initially planned.

X5: License and permits income is difficult to predict as it is based on the frequency of unpredictable events.

X6: Other income is difficult to predict as it is based on the frequency of unpredictable events i.e. burial fees etc.

X7: Due to less money being kept in the investment account due to financial constraints.

X8: Variance below 10%, therefore insignificant.

X9: Significant increase in the assistance from the District Municipality and inflation related Equitable share adjustment.

X10: Traffic fine income is difficult to predict as it is based on the frequency of unpredictable events, furthermore enforcement is not under the direct control of the municipality.

X11: Variance below 10%, therefore insignificant.

X12: Variance below 10%, therefore insignificant.

X13: Due to the adoption of an amended FAR with significant changes to the values, useful lives and condition of all assets.

X14: Due to improvement in long outstanding debtors.

X15: Actuarial and landfill interest and creditors not provided for in the budgeted figure.

X16: Debt impairment not provided for in the budgeted figure.

Phokwane Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
-----------------	------	------

51. Budget differences (continued)

X17: Variance below 10%, therefore insignificant.

X18: General increase in electricity and water tariffs above the expected increase.

X19: Cost cutting measures applied.

X20: Cost cutting measures applied.

X21: Losses on disposal of asset are difficult to predict as there is no certainty on which assets will be sold:

X22: Due to the adoption of an amended FAR with significant changes to the values, useful lives and condition of all assets.

X23: Actuarial gains and losses not budgeted for.